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DEPARTMENT FOR EAP/RSA, EAP/MTS, EAP/RSP, EEB/IFD/OMA

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SUBJECT: TIMOR-LESTE FISCAL TRANSPARENCY FOR CONGRESSIONALLY MANDATED REPORT

REF: STATE 16737

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¶1. (U) This cable responds to reftel request for an update on fiscal transparency and accountability of countries receiving USG assistance.

#### Transparency of National Budget

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¶2. (U) Once approved by the National Parliament and promulgated by the President, the Government of Timor-Leste's (GOTL) annual budget is published in the official gazette, the Jornal da Repzblica. The process for approving the budget is outlined in the newspaper. The budget is also available on the Ministry of Finance website, [www.mof.gov.tl](http://www.mof.gov.tl)

. Efforts are made to publish the budget in three languages: Tetum, Portuguese, and English. The 2008 Parliamentary budget deliberations were carried live on local radio.

¶3. (U) The Ministry of Finance also publishes quarterly and annual budget execution reports while the Banking and Payments Authority (BPA), Timor-Leste's quasi-central bank that serves as the custodian of the Petroleum Fund, publishes quarterly reports on the Fund's assets. The Ministry of Finance publishes annual reports on the performance of the Petroleum Fund. All of these are available via the internet. As an aside, many experts agree that Timor-Leste's Petroleum Fund is managed in accordance with international best practices.

#### Revenues and Expenditures

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¶4. (U) All revenues and expenditures are included in the publicly-available budget, although foreign assistance to Timor-Leste is usually not well reflected in the combined sources budget. The information contained in the various publicly available reports on revenues and expenditures is generally considered to be accurate, but the budget often lacks the level of detail necessary to understand the nature of Government programs. For example, the 2008 budget includes \$20 million of transfers to be managed by the Office of the Deputy Prime Minister. Much of these funds are understood to support

internally displaced persons, but that is not specified in the budget itself. Nor does the budget provide any indication of how the funds might be spent - e.g., additional humanitarian assistance, construction of transitional or permanent housing, cash payments, etc. In addition, rates of budget execution are typically presented on a commitment rather than cash basis, and cash spending tends to be poorly documented.

#### Fiscal Transparency

15. (U) Weaknesses in the area of fiscal policy are generally attributed to the extremely limited capacity of GOTL institutions. The most glaring are budget execution and monitoring of program implementation. Government institutions simply do not have the capacity to effectively implement capital development projects. Weaknesses exist at each step in the process: strategic planning, budgeting, project design, procurement, evaluation of proposals, and monitoring implementation. As a result, large amounts of funds have historically been carried over from year-to-year. If and how these carry-over funds are spent is often unclear.

16. (U) The limited capacity of GOTL institutions is mirrored in Timor-Leste's civil society sector, particularly among media outlets. Journalists generally lack the knowledge and skills to effectively utilize the budget documents that are publicly available and thereby provide citizens of Timor-Leste with objective, independent analysis and oversight of the Government's budget and performance. There are few if any policy research organizations that might provide independent policy analysis to inform public debate.

#### USG Support to Strengthen Fiscal Policies, Transparency, and Good Governance

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17. (U) USAID provides support to strengthen the administrative capacity of justice institutions, including budget execution. A Financial Management Training and Support program imparts financial, administrative, and management skills to members of the justice system, such as court administrators, finance officers, and administrative personnel from the Ministry of Justice, the Office of the Prosecutor General, the Public Defenders' Office, and the judiciary. The same project also supported the establishment of the Provedor's Office, Timor-Leste's independent ombudsman, and continues to assist the Provedor in training staff in investigation procedures and anti-corruption; setting up financial and administrative systems; developing a complaints management process to address citizens' concerns; providing public education on human rights, good governance, and corruption prevention; and monitoring the human rights situation and investigating violations.

18. (U) USAID is the leading donor supporting the development of an independent media sector in Timor-Leste. USAID aims to improve the ability of Timorese journalists to produce and disseminate high quality news and expand the reach of media information products available to all citizens of Timor-Leste. This includes providing specialized journalism training on particular topics, including business and the economy, as well as efforts to further develop a culture of investigative journalism in Timor-Leste.

19. (U) USAID also recently launched a program that will help develop Timorese professional quantitative research skills to conduct quality research, including public opinion surveys, project evaluations, community or sectoral assessments, and field testing public information materials, with particular emphasis on local governance and decentralization pilot projects. For example, the project will help carry out a corruption perceptions survey and could be utilized to undertake public expenditure tracking surveys if the Government of

Timor-Leste begins to decentralize budget authority.

Assistance from Donor Countries and Multilateral Institutions

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¶10. (U) The Asian Development Bank (ADB), Australia, and the World Bank are the leading actors providing support to the Government of Timor-Leste to improve its rate of budget execution. The ADB and Australia have placed international advisors in key ministries with sizable capital development budgets to assist with Government procurement. The World Bank manages the multi-donor Planning and Financial Management Capacity Building Program, which aims to build Government capacity in budgeting, public expenditure management, and revenue administration. The International Monetary Fund provides technical assistance to the Banking and Payments Authority (BPA) and advises on tax policy while Norway provides a number of advisors that assist with the management of the Petroleum Fund.

¶11. (U) Timor-Leste has not volunteered for the IMF to report on the country's compliance with standards and codes covering fiscal transparency.

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